

## **Introduction**

The purpose of this Governance Policy Manual is to collect in one document the principal policies and procedures developed and used by the Board of the Pennsylvania State Employees' Retirement System ("SERS"). The contents of this Manual provide guidance regarding the manner in which members of the Board and its committees are expected to conduct themselves, in order to carry out their responsibilities in an effective and efficient manner and in accordance with applicable law.

## **Board Responsibilities and Composition**

The SERS Board is responsible for oversight of the pension investments and benefits of more than 230,000 public employees at more than 100 Pennsylvania public sector employers. The SERS defined benefit system was originally established in 1923 and is one of the oldest and largest pension funds in the country. The Board also oversees a deferred compensation program with over 50,000 voluntary public employee participants and, effective, January 1, 2019, a defined contribution plan. SERS' nearly 200 staff members are responsible for carrying out investment functions and administration of the Board's programs.

The Board is composed of 11 members who serve as trustees with fiduciary responsibilities for management of SERS' funds. The members include:

- Five gubernatorial appointees (one of whom must be an annuitant) or a participant in the State Employees' Defined Contribution Plan ("Plan") who has terminated state service and is receiving or is eligible to receive distributions, subject to Senate confirmation
- Four legislators (each consisting of a majority and minority member):
  - Two of whom are representatives appointed by the Speaker of the House
  - Two of whom are senators appointed by the President Pro Tempore
- The State Treasurer and the Secretary of Banking and Securities (who serve as ex-officio members during his/her term of office)

The gubernatorial appointees serve for four-year terms. The legislative members serve until the expiration of their legislative terms. In addition, at least five members of the Board shall be active members of the system and at least two members shall have ten or more years of credited state service or shall have been active participants in the Plan for ten calendar years or have a combination of years of credited state service in the retirement system and calendar years as active participants in the Plan equal to ten or more years. One of the Board members is selected by the Governor to serve as Chairperson. The State Treasurer, Secretary of Banking and Securities, and legislative members also have the option of appointing their own designees to act in their stead on the Board.

## **Governing Statutes and Regulations**

The SERS Board, as well as the funds and programs it administers, were created and are governed by state statutes and law. In addition, the SERS Board is responsible for adopting and

implementing Pennsylvania Administrative Code provisions which interpret and supplement its program statutes. The primary statutory and code provisions which apply to the Board's responsibilities include the following:

- State Employees' Retirement Code
- Public Official and Employee Ethics Act
- Legislative Code of Ethics
- Governor's Code of Conduct
- Open Meetings Act ("Sunshine Law")
- Right-to-Know Law (a/k/a open records or freedom of information act)
- State Adverse Interest Act (prohibiting public official private interests in public contracts)
- State Employees' Retirement Board Administrative Code

### **Fiduciary Responsibilities**

As trustees, members of the SERS Board have fiduciary responsibilities. These legal duties of investment fiduciaries contain standards of conduct which are generally stricter than those observed by other public officials or directors of corporations. The primary fiduciary responsibilities imposed on SERS Board members and other SERS fiduciaries by 71 Pa. C.S.A. §5931 include:

#### **Duty of Loyalty**

SERS fiduciaries are subject to the exclusive benefit standard, which requires them to act solely in the interests of the plan's participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries.

#### **Duty of Care**

In exercising this fiduciary responsibility, SERS fiduciaries are governed by the "prudent investor" standard. They must exercise their responsibilities "with the degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income to be derived therefrom as well as the probable safety of their capital."

#### **Common Law Fiduciary Duties**

In addition to the above statutory provisions, fiduciary duties in trust law contain the following principles:

- *Duty to Diversify*: Trustees must diversify investments so as to minimize the risk of loss, unless under the circumstances it is clearly not prudent to do so.

- *Duty to Delegate:* Trustees may delegate functions that a prudent trustee would delegate under the circumstances, provided they exercise reasonable care in selecting, instructing and monitoring the delegated agents.
- *Duty to Control Costs:* Trustees may incur costs that are appropriate and reasonable to prudently accomplish the purposes of the trust.
- *Duty of Impartiality:* Trustees must discharge their duties impartially, taking into account any differing interests of various participants and beneficiaries.
- *Duty of Good Faith:* Trustees must exercise their responsibilities in accordance with a good-faith interpretation of applicable law and governing documents.

### **Vision Statement**

To become fully funded and the recognized leader among pension organizations providing innovative, best-in-class services and products to our customers and stakeholders.

### **Mission Statement**

Prepare our members and participants to achieve financial success and security in retirement.

### **Strategic Priorities**

- Modernize Systems
- Leverage External Engagement
- Invest Efficiently and Accountably
- Improve Member and Participant Experiences
- Cultivate Workforce Transformation

### **Guiding Principles**

The SERS Board and staff are committed to follow these guiding principles.

- Demonstrate Integrity
  - Commit to honesty, respect, professionalism and truth in every facet of behavior
  - Act ethically
- Develop and Empower Employees
  - Delegate meaningful responsibility, mentor and foster employee growth and development
  - Provide and seek constructive feedback and clear expectations to facilitate employee success
  - Celebrate success
  - Work as a Team
  - Be accountable and hold others accountable

- Focus on the Customer Experience
  - Provide accurate, complete and timely information
  - Provide quality service at a reasonable cost
  - Know and support your customers
  - Educate members, participants and employers as to their responsibilities
- Fulfill Fiduciary Obligations
  - Act solely and exclusively in the interest of the members and participants
  - Comply with the Retirement Code and other applicable laws, policies and procedures
  - Exercise prudence
- Lead Innovation and Improvement
  - Cultivate Best Practices
  - Enhance operational efficiencies
  - Consider digital as our first option
  - Pursue innovation and continuous improvement in all services
  - Identify operational issues and pursue desirable changes
  - Monitor and assess service delivery through continuous communication and feedback channels
  - Utilize qualitative and quantitative information to enhance operations wherever possible
- Learn from Mistakes
  - Focus on solving problems, not on assigning blame
  - Improve processes to prevent recurrence of problems and mistakes
- Safeguard Information, Facilities and Staff
  - Understand the importance of information and physical security
  - Continuously assess information security
  - Comply with the policies for system security, access and use
  - Enforce information and physical security
  - Comply with internal controls
- Share Knowledge
  - Share information with others to enhance their knowledge and add value to business operations and processes
  - Support and encourage collaboration among internal program areas
  - Support and encourage collaboration with customers and stakeholders
- Think Strategically
  - Envision future opportunities from internal and external sources, that support SERS in its mission
  - Keep abreast of changing trends, market opportunities, and competitive threats

- Identify strategic responses to issues facing SERS and its members and participants